AMERICAN STORES COMPANY
1995 ANNUAL REPORT

IMPLEMENTING CHANGE

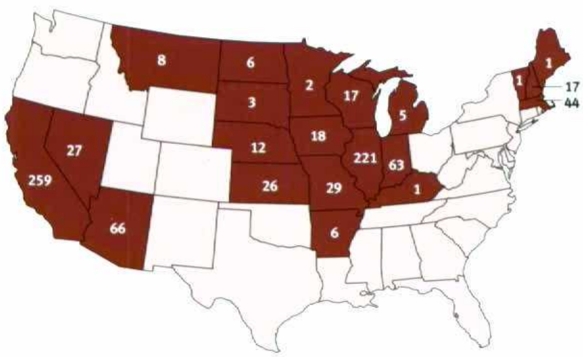
COMPANY PROFILE

American Stores Company is one of the nation's leading food and drug retailers operating stand-alone food and drug stores, and combination food/drug store units. The Company's operations are generally located in major metropolitan markets where they hold leading market positions (generally first or second in overall market share). The Company's principal food operations are Acme Markets and Jewel Food Stores (the eastern food operations), Lucky Stores Northern California Division and Southern California Division and Jewel Osco Southwest (the western food operations). The Company's drug stores operate under the Osco Drug and Sav-on names (the drug store operations). At year-end 1995, the Company operated 1,650 stores in 26 states and employed approximately 121,000 associates.

FOOD STORES

EASTERN FOOD OPERATIONS	
Acme Markets	190 stores in 4 states
Jewel Food Stores [1]	187 stores in 5 states
WESTERN FOOD OPERATIONS	
Lucky Stores Northern California Division	187 stores in 1 state
Lucky Stores Southern California Division	243 stores in 2 states
Jewel Osco Southwest	11 stores in 1 state
TOTAL FOOD STORES	818 stores in 12 states

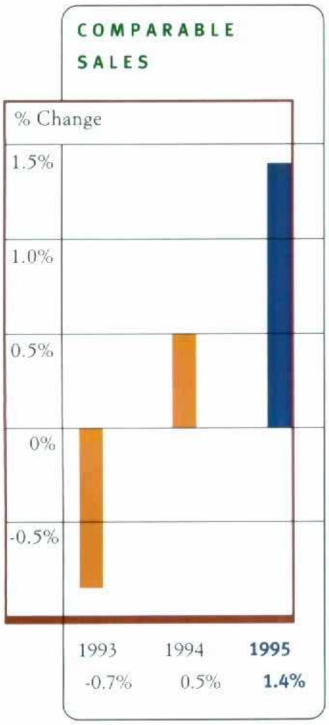
DRUG STORES

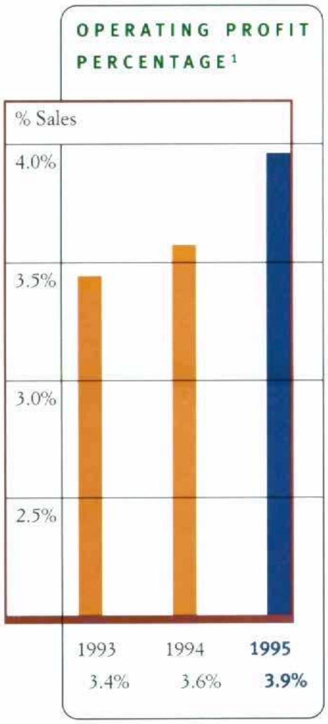


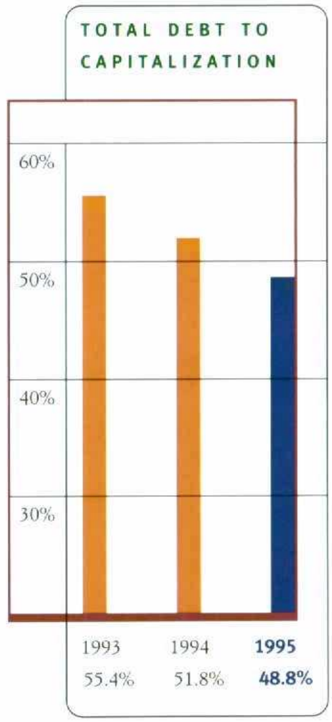
DRUG STORE OPERATIONS	
Osco Drug [1]	551 stores in 20 states
Sav-on	281 stores in 2 states
TOTAL DRUG STORES	832 stores in 21 states

[1] *Includes 153 jointly operated Jewel Osco combination stores which are counted in both Jewel Food Stores and Osco Drug totals*

FINANCIAL HIGHLIGHTS







[1] from continuing operations
[2] 1994 includes non-recurring items totaling $0.39 per share
[3] 1995 was a 53-week year

COMMON STOCK MARKET PRICES AND DIVIDENDS

The market price range on the New York Stock Exchange and the dividends declared on the Company's stock are set forth in the following table. The common shares of the Company are listed on the New York, Philadelphia, Chicago and Pacific stock exchanges under the trading symbol "ASC." The number of shareholders of record of the Company's common stock at March 30, 1996, was 18,197.

	1995 Market Price High	1995 Market Price Low	1995 Cash Dividend Paid	1994 Market Price High	1994 Market Price Low	1994 Cash Dividend Paid	1993 Market Price High	1993 Market Price Low	1993 Cash Dividend Paid
First Quarter	$26 1/8	$23 1/4	$.14	$27 3/16	$20 7/8	$.12	$22 3/16	$18 1/8	$.10
Second Quarter	$29 3/4	$24 3/4	.14	$26 1/8	$23 1/4	.12	$23 3/16	$20 3/16	.10
Third Quarter	$30 3/4	$28 1/8	.14	$27 1/8	$23 3/4	.12	$24 5/8	$19 7/8	.10
Fourth Quarter	$30 3/4	$24 7/8	.14	$27 3/4	$24	.12	$22 1/4	$19 7/8	.10
ANNUAL DIVIDEND			$.56			$.48			$.40

We began our transformation from a holding company to an operating company in 1993. Since then, our annual reports have been devoted to keeping you informed of our progress. This year will be no exception. You will read in this year's report that we are on schedule, and are so pleased with our progress that we accelerated one element of our Delta project, the centralization of grocery buying, to 1996 from 1997. While total benefits of our many Delta initiatives are not expected to exceed total costs until the second half of 1997, we already have segments of Delta that are returning net benefits. These early successes, coupled with our move to an operating company, have fueled our strong performance since 1991.

With so much change at our Company, I would like to highlight some of the progress we have made:

- By selling assets that did not fit into our long-term strategy, we have reached our goal of being number one or two in our major markets. The effect of this program has obviously been to reduce total sales. In 1991 we had sales of $20.8 billion and the 1995 fiscal year finished at $18.3 billion, a 12 percent decrease during this period. However, our current store base is stronger and positioned for growth.

- Evidence of the strength of our store base is our increase in operating profits over the same four years from $602 million to $707 million on these lower sales. Also, operating profit, before amortization of goodwill, as a percentage of sales has risen from 3.2 percent to 4.2 percent.

- Our capital program has expanded significantly. In 1995 we invested $801 million in our business and opened 92 new stores, compared to $379 million and 25 new stores in 1991. As we look to the future we expect to invest approximately $3 billion and open over 300 new stores in the next three years.

- Even with increased capital investment, our debt to capitalization ratio has decreased from 77 percent in 1989 to 49 percent in 1995. The 1989 year showed the peak debt level after the acquisition of Lucky Stores. Going forward, we expect further decreases in this percentage through equity growth.

• Our like store sales have turned the corner. These numbers were in negative territory in 1992 and 1993, but have been trending up ever since. For the fourth quarter of 1995, comparable store sales increased 2.5%, our best quarterly performance since 1990. We believe our capital investment program and improved merchandising across all divisions have been instrumental in this development.

While we are pleased with our results, we know we must continue to improve them. We are satisfied that our new organization, Delta project and capital program will produce these improvements.

In closing, I would like to thank all of those who are making this transformation possible. The changes we are undertaking are tremendous but absolutely necessary for the future success and growth of our organization. This growth will provide our shareholders the returns they expect while at the same time providing opportunity for all of the people who make up American Stores Company. As shareholders, you can be proud of the "we," not "me" attitude that permeates your company. We are excited about and believe in our future. At the same time we understand that a focused vision and hard work are necessary to build on our success.

Respectfully,

Victor L. Lund
April 1996

Acme's Lancaster Brand is widely recognized in the Delaware Valley marketplace for its quality and freshness. This low-fat poultry, introduced in the fall, has been particularly well-received by health-conscious customers.

The American Stores Company strategy begins with knowing ourselves and our markets – understanding our customers and competition in each market we serve. We strive to provide customers with the items they want, when they want them, in a strategically located store and in a format best suited to meet their needs.

By constantly monitoring consumer trends and lifestyles, American Stores Company keeps pace with today's changing consumer, whose expectations, shopping trends and eating habits continue to evolve. Today's consumers want more from their neighborhood store, and American Stores Company is delivering more in every sense of the word.

We continue to initiate new marketing and merchandising strategies that better serve our customers, and importantly, increase sales. In early 1995 the management teams of Jewel and Osco in Chicago began to partner in new ways – through merchandising tie-ins, a new combined advertising campaign, joint procurement and shared management objectives. We have already seen significant results. For example, by coordinating their efforts in the candy category during the recent holiday season, combined Jewel and Osco sales for these products increased by more than eighty percent over the prior year.

As retailers, we look for ways to meet the competitive challenge that specialty retailers present to traditional grocery stores. Our Max Pak aisles, which compete with club stores, continue to provide value and convenience to our customers. In the pet category, we are addressing this challenge head-on through the addition of Pet Centers in selected stores. These departments extend the pet care offering beyond food items to pet carriers, bedding, grooming items, toys and other pet care products. Both Acme and Lucky have successfully added a number of these departments over the past year.

Private label products continue to be an important part of our ability to deliver value to our customers, and our offerings were broadened in 1995. At Acme we expanded the Lancaster brand meats to include fresh poultry, in addition to the beef and pork selections. Our American Premier line, which is marketed systemwide, was expanded into wine and distilled spirits. In keeping with our premium private label strategy, these products sell at a discount to the comparable national brand products, while offering higher quality. Each line extension was very successful. For 1996 the Company will introduce a new line of premium private label health and beauty aid items.

Neighborhood marketing continues to be an important part of the success equation at American Stores. This strategy emphasizes local marketing by offering a variety of items tailored for each store and catering to the specific needs and tastes of local customers. The Jewel Preferred Card is an important tool in the development of our neighborhood marketing approach. Data gathered from preferred card purchases provides valuable insight into our shoppers' preferences. Best of all, this information helps us become better merchants to a cross-section of customers with diverse needs.

We are maintaining our commitment to convenience, and our offerings of in-store services have been well-received by our customers. One example is our new partnership with the United States Post Office. Rapid population growth in Las Vegas caused the Post Office to look outside their traditional facilities to meet the demand for new locations. Lucky Stores was there to meet that need. A successful relationship has been established, and we now have eight post office branches in our Las Vegas Lucky stores. We plan to expand this partnership to several more cities in the near future.

Another successful alliance is evolving between Lucky, Jewel and Bank of America to bring full-service bank branches and ATMs to the neighborhood grocery store. This relationship is the largest, most extensive in-store banking network in the country today. In our Lucky stores we installed 37 full-service banks in 1995, and another 37 are scheduled for 1996. The majority of other Lucky stores in northern and southern California have sales centers consisting of ATMs and customer service phones. Bank of America has also installed ATMs in all of our Chicagoland Jewel Osco stores and is piloting full-service banks in three Jewel Osco locations.

In our drug stores we have re-engineered the work flow of our pharmacies to fill prescriptions more quickly, providing a higher level of customer service. We have introduced such initiatives as touch tone phone response systems, which allow customers to place refill prescription orders through a voice menu tree, combining efficiency and added convenience.

As a customer and market driven company, we must be a leader, not a follower. We will reduce the amount of time it takes to react to our customers' needs and our competition. We must be ready to act on opportunities as we see them. This past year we have implemented many changes to achieve these goals.

This pet center (top), located in one of our Acme stores, is a popular destination for local pet lovers. Pet gift baskets were featured during the holidays.

American Premier distilled wines and spirits (center) were introduced in our stores this year. These attractively bottled products were widely successful. Increased selections and promotions for both are planned for 1996.

This U.S. post office (bottom) located in a Las Vegas Lucky store offers convenient in-store service to shoppers.

The type and mix of our store formats must keep pace with the constant changes in our customers' needs and tastes. At the same time we must ensure that the stores meet high standards for consistency and uniformity to maximize economies of scale in design and construction. We have achieved significant efficiencies while improving our store network by reducing the number of different prototypes. As a result we are focusing our efforts on those formats that we know are winners.

For example, we have found that the combination food and drug stores are particularly popular with our customers. These stores feature greater product selection in every department. The food side of the store provides year-round fresh produce, a wide array of meat and fresh seafood, a full-service floral department, service bakeries and delis with

This Acme combination store, located in Runnemede, New Jersey, was enlarged during 1995 and reopened on December 3. Acme opened a total of seven new or enlarged stores in the Delaware Valley over that weekend, to the enthusiasm of local shoppers.

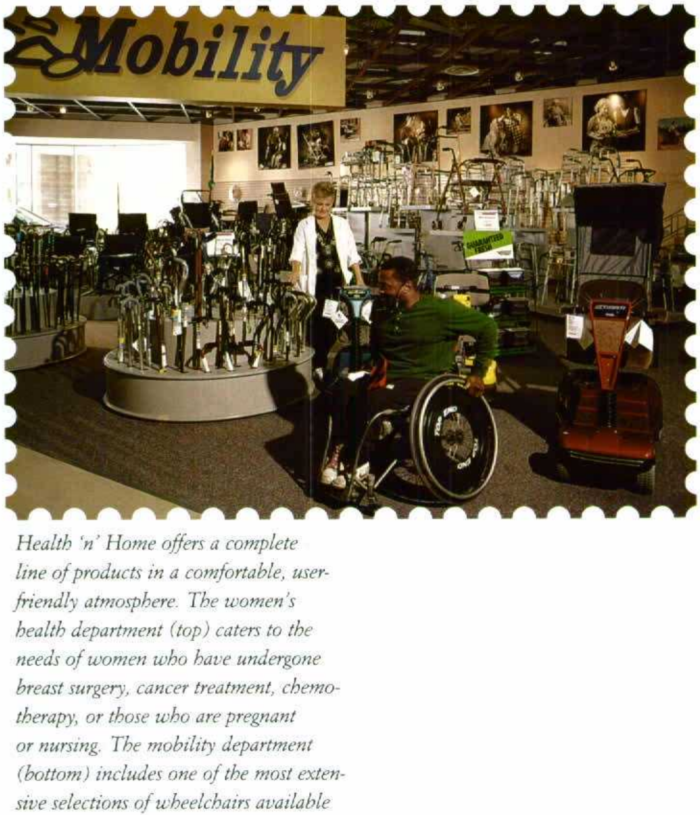
attractively presented convenience items. The drug side of the store offers customers a complete selection of health and beauty aids, general merchandise, and pharmaceuticals, for total one-stop shopping. The majority of our new grocery units are being constructed as combination stores, replacing older, smaller units that did not include an expanded drug store offering.

We are continuing the process of reinventing the neighborhood drug store with the evolution of the "vision store" format. The newest prototype is a stand-alone unit generally located away from food stores and shopping centers. It reinforces the neighborhood pharmacy and health center image and provides room for a drive-up prescription window.

American Stores identified a greater demand for home health care for all age groups, and launched its newest retail format, Health 'n' Home. This new retail center opened in early November 1995 in Phoenix, Arizona. Home health care products have become increasingly available to the retail segment. This is due, in large part, to the growing trend away from costly hospital-based care. Improvements in design and numerous convenient products now allow effective in-home care for the ongoing treatment of serious disability or temporary medical conditions.

Health 'n' Home offers the broadest range of home health care products and services ever available under one roof. Product offerings include oxygen and respiratory therapies, scooters, wheelchairs and walking aids, ostomy supplies, orthotics and diabetic/nutritional products. Health 'n' Home also offers new categories such as women's health products, pediatrics and sports therapy. All departments are managed by professionals with medical backgrounds who can educate customers and demonstrate proper use of products.

We expect Health 'n' Home to benefit from the changes in health care by bringing home health care products into the retail environment and making personal involvement in health care more accessible to consumers.



Health 'n' Home offers a complete line of products in a comfortable, user-friendly atmosphere. The women's health department (top) caters to the needs of women who have undergone breast surgery, cancer treatment, chemotherapy, or those who are pregnant or nursing. The mobility department (bottom) includes one of the most extensive selections of wheelchairs available in the country today.

Within each market our goal is to hold the first or second market share position, or have a reasonable expectation of attaining that standing in the near future. In this way we can achieve significant economies of scale in every aspect of our business, including procurement, merchandising, advertising and logistics.

Our food and drug stores have successfully maintained their leading share in mature markets through focused capital spending on enlargements, remodels and selective acquisitions.

New, improved combination store formats have also made a big difference in keeping our competitive edge. For example in the Delaware Valley we opened ten enlargement or replacement combination stores in 1995. Our sales results for these stores are impressive – almost double the older stores they replaced. In Chicago we opened eight new combination stores last fiscal year. All of these stores are showing outstanding sales and earnings results.

This new stand-alone Osco drug store is one of seven which opened in the Milwaukee area this year, our first stores in this market. It features a convenient format with a drive-up window.

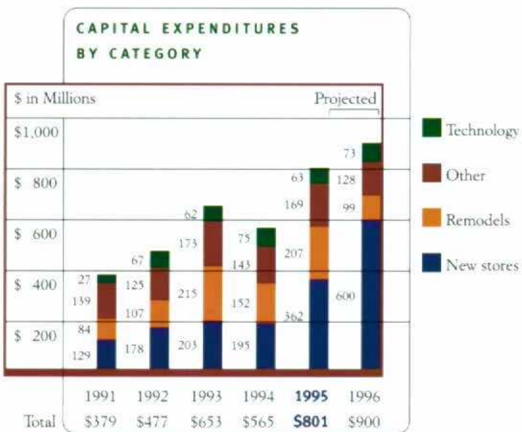
We are aggressively increasing our presence in growth markets as well. We identify and pursue markets where we can provide a quality retail format to new customers and achieve strong returns for our shareholders. This year we opened four new stores and remodeled two stores in Las Vegas. We currently operate 22 food and drug stores in this robust market. We also entered the Milwaukee market with six new drug stores and have plans to build additional units in this area.

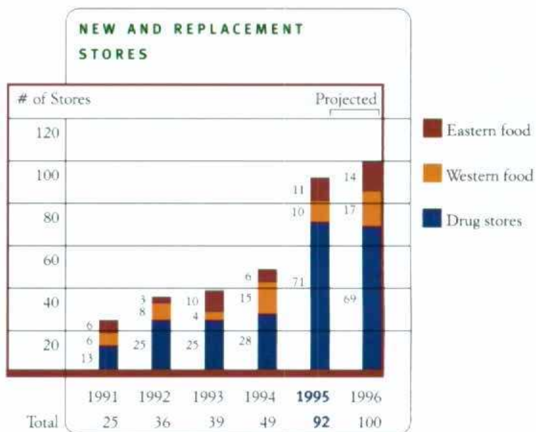
Our aggressive capital program is making this growth possible. Targeted at over $900 million in 1996, it will be the highest level in our history. For our store network it reflects a shift in focus from remodels to new and replacement stores.

Investment in our warehouses and logistics operations will also keep pace. Modern, efficient warehouses are an essential component in delivering quality, fresh product to our stores. In 1995 we completed new Jewel and Lucky North perishables warehouses. We now have the most modern such facilities in this country, with customized environments for a wide array of products. In mid-1996 our new Lucky North frozen food warehouse will open.

The capital plans also include investment in technology, which provides key leverage in maintaining our competitive advantage. Most of our investment in this area is through our Delta re-engineering initiatives.

Capital expenditures have more than doubled over the past five years, reflecting the Company's commitment to pursue attractive new markets and maintain our store base systemwide. New and replacement stores are the current focus, with over 100 stores planned in 1996 – a record.





As we evaluate the rapidly changing health care industry, there are many intriguing opportunities. We place considerable value on our position as a health care services provider and anticipate that this aspect of our business will grow significantly.

Our large national network of retail drug stores enables us to take advantage of several industry trends. An increasing amount of our pharmacy business is with third-party providers. We have moved ahead of the crowd to capitalize on the health care industry's shift toward contract-based pharmacy care. Our ratio of third-party contracts is among the highest in the industry, and we believe that this business represents a unique strategic opportunity for us to build market share and forge important partnerships. There is no doubt that this business is competitive. However, we continue to lower our cost structure through process engineering and technology to ensure that we can compete.

Two years ago American Stores created a pharmacy benefits management company, RxAmerica, to administer benefits programs for employers, insurers, and managed health care organizations. In September 1995 American Stores entered into an alliance with Geneva Pharmaceuticals, Inc., a wholly-owned subsidiary of Ciba-Geigy, one of the world's leading pharmaceutical manufacturers. As a result Geneva now owns a fifty percent stake in RxAmerica, providing the partnership access to its broad line of high-quality generic pharmaceutical products. Offering these lower-cost generic alternatives will be a key advantage that differentiates RxAmerica from its competitors.

Our individual and third-party customers appreciate the friendly, professional service available through our extensive retail pharmacy network.

In addition to its focused marketing on generic formulary, RxAmerica has greatly expanded its mail-order pharmacy operations. In August 1995 the partnership opened its second mail-order processing facility in Fort Worth, Texas. This effort continues to grow as we enroll new subscribers and look for new ways to provide service to our customers.

We continue to look at other opportunities that will leverage our broad expertise and talent pool into other health care areas. We believe that the consumer focus on health and fitness will continue to grow.

The American Stores Company Delta Team was created to develop the industry's most efficient supply chain processes and systems. Our goal is to transform the Company from a collection of autonomous operating divisions into a nationally managed network that efficiently coordinates buying, warehousing, inventory control and distribution. This will improve our ability to move product through the supply chain faster and more economically. At the same time we will utilize the information generated from our systems to improve our merchandising and marketing – becoming more effective retailers. This effort began in 1994 with planning and identifying project requirements. With the planning completed, we have begun implementation.

Delta is not a single initiative, but literally dozens of initiatives. Although some are interrelated, many are not. Each of the initiatives has a different timeline, but all should be completed within a few years.

The Jewel perishable warehouse (above) and the grocery warehouse renovation were completed in 1995. Installation of Dallas Systems software was completed that fall. Dallas improves the handling and storage of warehouse inventory by making product put-away and picking more efficient.

CENTRALIZED PROCUREMENT

One key component of Delta is centralized procurement. We are in the process of centralizing this function for all American Stores Company products, allowing us to coordinate our orders and communicate to vendors with one voice. Although most of the procurement team will be located in Salt Lake City, local buyers will remain in the operating divisions to focus on region-specific product needs. The centralization effort has already begun for our private label and general merchandise categories, as well as selected perishable and grocery items. As the upgraded information technology systems are put into place to support this process, we can expand our buying to include far more items with significant economies of scale.

IMPROVED MERCHANDISING

Information gained through our new tracking systems will be a powerful tool for our merchandising and marketing efforts. Because these systems can tell us, store by store, what products are selling, we will track our customers' purchases in many ways – by neighbohood, by market, or any other demographic category. Marketers will remain in their specific operating divisions and will use these tools, along with external market data, to gain a better understanding of each and every customer.

JEWEL WAREHOUSE – MELROSE PARK
DALLAS SYSTEM PERFORMANCE IMPROVEMENT

Projected annualized labor savings based on performance to date are as follows:

	% IMPROVEMENT
Warehouse Labor Savings per Year (Fresh Foods)	12.1%
Warehouse Labor Savings per Year (Grocery)	4.0%
Warehouse Labor Savings per Year (Combined)	7.6%
Selection Units per Hour	14.3%
Forklift Pallets per Hour	26.6%
Total Selection and Forklift Hours	15.1%
Total Selection and Forklift Labor Expense	15.1%

This chart illustrates several components which showed improvements ranging from 14 to over 25 percent.

NEW REPLENISHMENT SYSTEMS

Technology will also play a key role in our new replenishment systems, which are being centralized along with procurement. The focus of this effort is in-stock inventory management and forecasting to optimize stock levels throughout the system. The new technology will track warehouse movement of all items throughout the supply chain. This will lower our costs and increase the in-stock position on our store shelves, driving increased sales volumes.

Keith Aldridge (right), National Product Manager for American Stores Company, works closely with suppliers to procure competitively priced product and develop national promotional programs for the entire American Stores retail network. Phillip Merrill (left) of the Sweet Candy Company is shown negotiating a national candy purchase with Keith.

MORE EFFICIENT LOGISTICS

Another component of Delta is the re-engineering of product movement by our warehouse and trucking fleet. We have already implemented a new software application from Dallas Systems in most of our warehouses. With standardization of item numbers and ordering practices throughout our operations, we are now able to service multiple store formats from a particular warehouse, leveraging our stock position and transportation costs. This will be particularly effective in areas where we have a concentration of both food and drug stores, such as California and Chicago.

ENHANCED STORE PERFORMANCE

Several key areas in store operations are also being addressed in the Delta initiative. New labor management systems will help store managers in scheduling personnel to meet business and customer needs. Streamlined processes in the area of store cash accountability will allow more time for customer relations. Store level product receiving and replenishment systems will increase our ability to serve customer shopping needs more effectively.

A key tenet of the Delta re-engineering effort is to make our stores more user-friendly to our customers. Our marketing and customer positioning will be absolutely seamless. One of the key strengths of American Stores Company is the ability of our local management teams to make decisions and develop strategies that are appropriate for local needs. Each of our markets across the country is unique, with different customers and competitors. We must maintain this ability to effectively serve each individual market.

NEW ORGANIZATION AND STRUCTURE TO MATCH MISSION AND STRATEGIES

A "one company" culture will be extremely important to the success of our new organization. This Company did not grow from the ground up like many of our competitors; it grew through various acquisitions. Our new culture will draw from the strengths of each distinct operation.

As part of this new culture, we have developed a new planning process that serves to coordinate goals and strategies among all operating divisions. The centralized functions will work with the operating divisions to meet their specific goals. We will approach each market differently and our central group will service the needs by market.

Our vision includes a centralized team based in our Salt Lake City headquarters. We have begun developing centralized staff support organizations over the past few years and have now completed this effort for real estate and construction, information technology, accounting and legal functions. Most of the new procurement team will also be relocated to the headquarters.

SELECTED FINANCIAL DATA

The following consolidated selected financial data of the Company for the last five years should be read in conjunction with the consolidated financial statements and related notes appearing on pages 17 to 30.

Comparisons of the results of operations between fiscal years 1991 to 1995 are rendered difficult due to the Company's disposition of stores. These include the disposition of 45 Acme Markets stores in the fourth quarter of 1994, the 33-store Star Market food division in the third quarter of 1994, 74 Jewel Osco combination food and drug stores in the first quarter of 1992 and the 145 Alpha Beta Company stores and 59 Osco Drug stores in the second and third quarters of 1991. These disposed of stores generated sales in the amounts of $0.8 billion, $1.2 billion, $1.4 billion and $3.4 billion in 1994, 1993, 1992, and 1991, respectively.

(In thousands of dollars, except per share data)	**1995**[1]	1994	1993	1992	1991
SALES	**$18,308,894**	$18,355,126	$18,763,439	$19,051,180	$20,822,956
Earnings before extraordinary item and cumulative effect of a change in accounting principle	**$316,809**	$345,184	$262,090	$207,466	$240,016
Extraordinary item – early retirement of debt – net of taxes			(15,000)		
Cumulative effect of a change in accounting principle – Postretirement health care benefits					(40,734)
NET EARNINGS	**$316,809**	$345,184	$247,090	$207,466	$199,282
Average shares outstanding	**146,943**	142,767	142,202	140,314	138,364
Earnings per share before extraordinary item and cumulative effect of a change in accounting principle	**$2.16**	$2.42	$1.85	$1.48	$1.73
Extraordinary item – early retirement of debt – net of taxes			(.11)		
Cumulative effect of a change in accounting principle – Postretirement health care benefits					(.29)
NET EARNINGS PER SHARE	**$2.16**	$2.42	$1.74	$1.48	$1.44
FULLY DILUTED EARNINGS PER SHARE	**$2.16**	$2.33	$1.69	$1.44	$1.41
Cash dividends declared per share	**$.56**	$.48	$.40	$.36	$.32
Total assets at year-end	**$7,362,964**	$7,031,566	$6,927,434	$6,763,793	$7,198,050
Total debt and obligations under capital leases at year-end	**$2,240,168**	$2,205,291	$2,167,999	$2,248,316	$2,798,578
Total capital expenditures [2]	**$801,371**	$565,313	$652,928	$476,617	$378,593
Store count [3]	**1,650**	1,597	1,695	1,672	1,631
Selling area square footage (000's) [4]	**32,523**	31,179	32,727	32,320	34,428

[1] *53-week year*
[2] *Includes present value of new leases*
[3] *Includes both the food and drug sides of Jewel Osco combination stores which are counted as separate stores*
[4] *Selling area square footage was 74% of total retail square footage in 1995*

Note: The fiscal year of the Company ends on the Saturday nearest to January 31. All references herein to "1995", "1994", "1993", "1992" and "1991" represent the fiscal years ended February 3, 1996, January 28, 1995, January 29, 1994, January 30, 1993 and February 1, 1992, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Total sales and the percentage change in comparable store sales for the 1995 53-week fiscal year, and the 1994 and 1993 52-week fiscal years, are set forth in the tables below. The decrease in total sales is primarily attributable to the disposition of the 33-store Star Market food division in the third quarter of 1994 and the 45 Acme Markets stores in the fourth quarter of 1994 (disposed of operations). Sales from continuing operations increased 4.5% in 1995, and decreased 0.3% in 1994 and 0.2% in 1993. The increase in sales from continuing operations in 1995 is primarily a result of improved performance at all three operating divisions and the extra week of operations. Comparable store sales (sales from stores that have been open at least one year, including replacement stores) increased 1.4% in 1995, 0.5% in 1994 and decreased 0.7% in 1993. The improvement in comparable store sales is primarily the result of successful marketing of the combination stores in the eastern food operations, increased pharmacy and third-party sales in the drug store operations and aggressive pricing programs offset slightly by the impact of a nine-day labor dispute in the first quarter of 1995 in the western food operations. The Super Saver warehouse-type stores have been reorganized under the Lucky operations in 1996 to leverage our support functions.

TOTAL SALES

(In millions of dollars)	**53 WEEKS 1995**	52 weeks 1994	52 weeks 1993
Eastern food operations	**$ 6,147**	$ 5,957	$ 6,052
Western food operations	**7,155**	7,002	7,183
Drug store operations	**4,995**	4,544	4,322
Other	**12**	12	12
Continuing operations	**18,309**	17,515	17,569
Disposed of operations		840	1,194
TOTAL SALES	**$18,309**	$18,355	$18,763

COMPARABLE STORE SALES

(Percentage change)	**53 WEEKS 1995**	52 weeks 1994	52 weeks 1993
Eastern food operations	**1.5%**	0.7%	(1.5)%
Western food operations	**(0.8)%**	(1.8)%	(1.9)%
Drug store operations	**4.8%**	4.2%	2.6%
TOTAL CHANGE	**1.4%**	0.5%	(0.7)%

Gross profit as a percent of sales increased to 26.9% in 1995, compared to 26.8% in 1994 and 26.4% in 1993. The increase in gross profit in 1995 over 1994 is primarily the result of the disposed of operations, which produced lower margins than the continuing operations, and improvements in the eastern food operations due to improved product mix and promotional strategies. These increases were offset by decreases in competitive drug store pharmacy gross margins and the impact of a nine-day labor dispute in the first quarter of 1995 in the western food operations. The 1994 gross profit percentage increased from 1993 in the eastern food, western food and drug store operations primarily due to improvements in the mix of products sold, promotional strategies and shrink control. The annual pre-tax LIFO charge to earnings amounted to $12.8 million in 1995, $8.2 million in 1994 and $7.2 million in 1993. Changes in the mix of inventory have influenced the LIFO charge.

Operating expense as a percent of sales decreased to 23.0% in 1995, compared to 23.3% in 1994 and 23.0% in 1993. Operating expense in the western food operations benefited in 1995 from the renegotiation of a labor contract with the United Food and Commercial Workers International. The new contract will expire in 1999, and replaces a contract scheduled to expire in 1996. As a result of the early termination of the contract, certain health and welfare savings, which were being recognized over the life of the old contract, were immediately recognized in the third quarter of 1995. Operating expense in the western food operations also decreased due to lower self-insurance costs and productivity improvements, which were partially offset by the impact of the nine-day labor dispute. In addition, improved sales, lower insurance costs and better overall cost control in the eastern food and drug store operations helped lower operating expense as a percentage of sales. Operating expense in 1994 included charges of $23.9 million ($0.10 per share) for centralization of administrative functions, including information technology and accounting. As of third quarter 1995, the entire reserve had been utilized without significant adjustments to the original amount. Operating expense in 1994 also included expenses for the consolidation of the computer data centers and a voluntary severance program initiated at Acme Markets, totaling $11.2 million ($0.05 per share). Operating expense in 1993 included $7.6 million ($0.04 per share) for the settlement of meat products litigation in California and severance programs stemming from the Company's expense reduction programs.

Total operating profit for the last three fiscal years is set forth in the following table. Operating profit from continuing operations increased 11.9% in 1995, 4.4% in 1994 and 0.8% in 1993. Total operating profit was 3.9% of sales in 1995, 3.5% of sales in 1994 and 3.4% of sales in 1993. The increase in operating profit and operating profit as a percentage of sales is primarily due to strong performances from the Company's core operations and the extra week of operations included in 1995. In addition, eastern food operations improved due to successful joint marketing of the combination stores, western food operations improved due to lower health and welfare costs associated with the renegotiated labor contract and drug store operations improved due to lower insurance costs and better cost control, slightly offset by the start-up costs of 71 new stores, including 17 acquired Clark drug stores.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

OPERATING PROFIT

(In millions of dollars)	**53 WEEKS 1995**	52 weeks 1994	52 weeks 1993
Eastern food operations	**$271.7**	$258.2	$231.2
Western food operations	**271.2**	245.9	248.7
Drug store operations	**245.4**	228.5	197.0
LIFO charge	**(12.8)**	(8.2)	(7.2)
Purchase accounting amortization	**(76.8)**	(78.6)	(79.2)
Other	**8.1**	(14.1)	14.7
Continuing operations	**706.8**	631.7	605.2
Disposed of operations		18.4	36.7
TOTAL OPERATING PROFIT	**$706.8**	$650.1	$641.9

Interest expense decreased in 1995, 1994 and 1993 due to lower average interest rates resulting from the refinancing of high coupon borrowings at lower rates. In addition, the Company experienced lower average debt levels for each of the last three years. Interest expense also benefited from the conversion of a portion of the convertible notes from debt to equity in the first quarter of 1995. The caption "Other" in 1994 of $120.1 million included non-recurring gains of $121.0 million on the sale of the Star Market food division, $41.2 million on the sale of 45 Acme Markets stores and a charge of $31.3 million for closed store costs (totaling $0.54 per share). "Other" in 1993 of $24.1 million included $45.7 million ($0.20 per share) of income from the resolution of the "Rule of 80" litigation, which concerned the Company's termination of the early retirement feature of an employee retirement plan. This was offset by approximately $17.2 million ($0.07 per share) of various charges, including costs associated with store closings, integrating acquired stores into existing operations and costs associated with the earthquake in southern California.

The Company's effective income tax rates were 42.5% in 1995, 43.1% in 1994 and 45.5% in 1993. The disposition of assets during 1995 and 1994 in states with higher tax rates has resulted in lower effective income tax rates.

Earnings for 1993 were affected by charges incurred in the early retirement of debt totaling $0.11 per share, which were accounted for as an extraordinary item. Net earnings per share amounted to $2.16 in 1995, $2.42 in 1994 and $1.74 in 1993.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities increased by $313.3 million from 1994 to 1995 primarily due to higher earnings after adjusting for the gain on disposed of operations. In addition, the disposed of operations in 1994 render the comparison between years more difficult. Cash and cash equivalents at the beginning of 1995 were higher than the beginning of 1994 and 1993 due to proceeds held from the sale of the disposed of operations.

Cash capital expenditures amounted to $750.9 million in 1995, $538.0 million in 1994 and $593.8 million in 1993. Additional capital expenditures represented by the net present value of leases amounted to $50.5 million in 1995, $27.3 million in 1994 and $59.1 million in 1993. The increase in capital expenditures in 1995 reflects the Company's commitment to its expanded capital expenditure program announced in 1992. The Company opened 92 new stores in 1995 including 17 acquired Clark drug stores. The Company opened 49 and 39 new stores in 1994 and 1993, respectively. There were 223, 166 and 233 stores remodeled in 1995, 1994 and 1993, respectively. During 1993 the Company acquired 55 Reliable drug stores and four Thrifty drug stores. Capital expenditures for fiscal 1996, including the net present value of leases, are expected to approximate $900 million and will be funded through cash flow from operations, existing credit facilities and other long-term borrowings. The Company currently plans to open 100 new stores and remodel 72 stores in 1996.

On March 9, 1995, the Company completed the redemption of its $175 million, 7-1/4% Convertible Subordinated Notes due 2001. The Company issued 5.3 million shares of common stock upon the conversion of $120.3 million principal amount of Notes and the balance of approximately $54.7 million principal amount of Notes was redeemed with cash.

On May 18, 1995, the Company issued $200 million, 7.4% debentures due May 15, 2005, at 99.5% to yield 7.5% under an $800 million shelf registration statement filed on February 18, 1994. On August 7, 1995, the Company entered into a $75 million, 6.6%, note payable due August 7, 2000. The proceeds from the note were used to pay off an existing $75 million, 8.9% note due August 7, 1995. On November 29, 1995, the Company paid off a $50 million, 10.9% note payable.

The net increase in debt was $43.3 million and $50.0 million in 1995 and 1994, respectively. The increases are due to increased capital spending in each year. In addition, debt increased in 1995 due to the repurchase of 2.5 million shares of the Company's common stock at an average market price of $28.93 under an existing stock repurchase program. As of February 3, 1996, there remained an additional 1.5 million shares authorized for repurchase under the program.

The Company's principal bank credit agreement is a $1.0 billion revolving credit facility, which expires in 1999 and is used for direct borrowings and as backup support for commercial paper. The Company also has $150 million of 364-day committed bank lines and $360 million of uncommitted bank lines, which are used for overnight and short-term bank borrowings. At year-end 1995, the Company had $865 million of debt supported by the credit facility and $69 million outstanding under bank lines, leaving unused committed borrowing capacity of $216 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Working capital amounted to $96.3 million at year-end 1995 compared to $200.7 million at year-end 1994 and a negative $58.3 million at year-end 1993. Fluctuations in the components of working capital are customary.

The Company's ratio of total debt (debt plus obligations under capital leases) to total capitalization (total debt plus common shareholders' equity) amounted to 48.8%, 51.8% and 55.4% at year-end 1995, 1994 and 1993, respectively.

The Company believes that its cash flow from operations, supplemented by credit available under the Company's existing credit facility, committed and uncommitted credit facilities, other long-term borrowings, as well as its ability to refinance debt, will be adequate to meet its presently identifiable cash requirements.

The Company uses derivative financial instruments to manage interest and currency risks on two foreign loans that had an outstanding principal balance of $210 million at year-end 1995. The Company is exposed to credit losses in the event of nonperformance by the counterparties to its swap agreements. Such counterparties are highly rated financial institutions and the Company anticipates they will be able to satisfy their obligations under the contracts.

CONTINGENCIES

The Company has identified environmental contamination sites related primarily to underground petroleum storage tanks at various store, warehouse, office and manufacturing facilities (related to current operations as well as previously disposed of businesses). Although the ultimate outcome and expense of environmental remediation is uncertain, the Company believes that the required costs of remediation and continuing compliance with environmental laws in excess of current reserves will not have a material adverse effect on the financial condition or operating results of the Company.

The Company, from time to time, has disposed of leased properties and may retain certain contingent lease liabilities, either by contract or law. Although the Company is unaware of any material assertions against it from such dispositions, such claims may arise in the future. If such claims were asserted, the expense to the Company would consist of unpaid lease obligations, such as rents, which may be offset by subletting the property, negotiating favorable lease terminations, operating the facilities or applying existing reserves.

INFLATION

In recent years, the impact of inflation on the Company's results of operations has been moderate. As operating expenses and inventory costs have increased, the Company, to the extent permitted by competition, has recovered these increases in costs by increasing prices over time.

The Company uses the LIFO (last-in, first-out) method of accounting for the majority of its inventories. Under this method, the cost of merchandise sold reported in the financial statements approximates current costs and thus reduces the distortion in reported earnings due to increasing costs.

The historical costs of property, plant and equipment recorded by the Company were incurred over a period of many years. The cost of replacing property, plant and equipment is generally greater than the cost on the books of the Company as a result of inflation that has occurred over the years since the property, plant and equipment were placed in service.

SUPPLY CHAIN RE-ENGINEERING

The Company is currently engaged in an effort to re-engineer its supply chain business processes. This involves streamlining the Company's buying, warehousing, distribution and merchandising activities. Major components of this effort include the development of new processes and implementation of new software to support these activities, as well as centralized management of certain procurement and logistics processes. The goal is to provide better products and services to customers through more cost-effective processes. In 1996, the Company plans to launch the centralization of the grocery procurement functions in Salt Lake City and implement its first set of integrated supply chain systems for liquor, wine and tobacco. The re-engineering efforts will continue over the next few years and, while the Company believes this effort will ultimately reduce its operating expenses and enhance its future operating results, the beneficial impact cannot presently be quantified or assured. However, the Company anticipates that the costs will exceed the benefits of such efforts during the 1996 fiscal year.

IMPACT OF NEW ACCOUNTING STANDARDS

As further explained in the accompanying notes to the financial statements, the Company adopted the recently issued accounting standard relating to long-lived assets in 1995, and its adoption did not have a material impact on the Company's financial statements.

The Company does not intend to change its method of recognizing expense in connection with stock-based compensation arrangements as permitted by the recently issued related standard and thus, its issuance will not have a material impact on the Company's financial statements.

REPORT OF INDEPENDENT AUDITORS

ERNST & YOUNG LLP

Shareholders and Board of Directors
American Stores Company

We have audited the accompanying consolidated balance sheets of American Stores Company and subsidiaries as of February 3, 1996, January 28, 1995 and January 29, 1994, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three fiscal years in the period ended February 3, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Stores Company and subsidiaries at February 3, 1996, January 28, 1995 and January 29, 1994, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended February 3, 1996, in conformity with generally accepted accounting principles.

Ernst + Young LLP

March 15, 1996
Salt Lake City, Utah

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)	53 WEEKS 1995	52 weeks 1994	52 weeks 1993
SALES	**$18,308,894**	$18,355,126	$18,763,439
Cost of merchandise sold, including warehousing and transportation expenses	**13,390,353**	13,436,699	13,815,607
Gross profit	**4,918,541**	4,918,427	4,947,832
Operating and administrative expenses	**4,211,718**	4,268,359	4,305,950
OPERATING PROFIT	**706,823**	650,068	641,882
Other income (expense):			
Interest income	**8,747**	6,789	4,568
Interest expense	**(159,545)**	(170,703)	(189,773)
Other	**(5,109)**	120,109	24,128
Total other income (expense)	**(155,907)**	(43,805)	(161,077)
Earnings before income taxes and extraordinary item	**550,916**	606,263	480,805
Federal and state income taxes	**(234,107)**	(261,079)	(218,715)
Earnings before extraordinary item	**316,809**	345,184	262,090
Extraordinary item – early retirement of debt – net of taxes			(15,000)
NET EARNINGS	**$ 316,809**	$ 345,184	$ 247,090

Average shares outstanding	**146,943**	142,767	142,202
Earnings per share before extraordinary item	**$2.16**	$2.42	$1.85
Extraordinary item			(.11)
NET EARNINGS PER SHARE	**$2.16**	$2.42	$1.74
FULLY DILUTED EARNINGS PER SHARE	**$2.16**	$2.33	$1.69

See notes to consolidated financial statements

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except per share data)	Year-end 1995	1994	1993
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	**$ 102,422**	$ 195,689	$ 59,580
Receivables	**319,688**	291,760	282,124
Inventories	**1,572,242**	1,526,770	1,539,610
Prepaid expenses	**69,098**	48,711	43,265
Deferred income tax benefits	**20,517**	69,165	71,230
TOTAL CURRENT ASSETS	**2,083,967**	2,132,095	1,995,809
PROPERTY, PLANT AND EQUIPMENT, at cost			
Land	**597,804**	522,014	541,396
Buildings	**1,399,561**	1,221,871	1,109,737
Fixtures and equipment	**2,415,326**	2,168,826	2,092,934
Leasehold improvements	**736,682**	654,441	654,123
	5,149,373	4,567,152	4,398,190
Less accumulated depreciation and amortization	**2,019,557**	1,800,714	1,694,150
NET PROPERTY, PLANT AND EQUIPMENT	**3,129,816**	2,766,438	2,704,040
PROPERTY UNDER CAPITAL LEASES, less accumulated amortization of $106,993 in 1995, $103,760 in 1994 and $108,394 in 1993	**76,084**	84,690	97,127
GOODWILL, less accumulated amortization of $418,006 in 1995, $365,271 in 1994 and $311,823 in 1993	**1,722,892**	1,771,121	1,827,334
OTHER ASSETS	**350,205**	277,222	303,124
TOTAL ASSETS	**$7,362,964**	$7,031,566	$6,927,434

CONSOLIDATED BALANCE SHEETS (CONCLUDED)

(In thousands of dollars, except per share data)	Year-end 1995	1994	1993
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current maturities of long-term debt	**$ 125,413**	$ 132,019	$ 66,830
Current obligations under capital leases	**9,739**	9,195	9,708
Accounts payable	**996,354**	883,329	958,272
Accrued payroll and benefits	**331,843**	350,637	303,160
Current portion of self-insurance reserves	**153,464**	179,595	212,891
Income taxes payable	**17,292**	46,170	118,279
Other current liabilities	**353,598**	330,486	384,959
TOTAL CURRENT LIABILITIES	**1,987,703**	1,931,431	2,054,099
LONG-TERM DEBT, less current maturities	**2,038,636**	1,988,710	2,003,866
OBLIGATIONS UNDER CAPITAL LEASES, less current obligations	**66,380**	75,367	87,595
SELF-INSURANCE RESERVES, less current portion	**434,028**	464,119	464,451
DEFERRED INCOME TAXES	**365,978**	320,814	345,760
OTHER LIABILITIES	**115,743**	200,204	229,378
SHAREHOLDERS' EQUITY			
Common stock of $1.00 par value, authorized 325,000,000 shares; issued 149,889,236 shares in 1995 and 144,542,156 shares in 1994 and 1993	**149,889**	144,542	144,542
Additional paid-in capital	**345,118**	216,418	190,173
Retained earnings	**1,942,874**	1,708,672	1,432,032
Less cost of treasury stock; 3,441,451 shares in 1995, 1,571,094 shares in 1994 and 2,038,454 shares in 1993	**(83,385)**	(18,711)	(24,462)
TOTAL SHAREHOLDERS' EQUITY	**2,354,496**	2,050,921	1,742,285
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$7,362,964**	$7,031,566	$6,927,434

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)	53 WEEKS 1995	52 weeks 1994	52 weeks 1993
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	**$316,809**	$345,184	$247,090
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**404,562**	407,286	384,307
Net (gain) loss on asset sales	**(3,219)**	(158,448)	16,060
Self-insurance reserves	**(56,222)**	(22,229)	8,197
Other	**(114,385)**	(95,422)	(107,529)
(Increase) decrease in current assets:			
Receivables	**(32,694)**	(26,037)	3,063
Inventories	**(54,645)**	(46,149)	36,889
Prepaid expenses	**28,164**	(10,347)	(14,308)
(Decrease) increase in current liabilities:			
Accounts payable	**124,750**	(44,369)	189
Other current liabilities	**23,305**	(49,866)	28,774
Accrued payroll and benefits	**(18,794)**	41,108	1,507
Income taxes payable	**(30,249)**	(66,611)	86,207
Total adjustments	**270,573**	(71,084)	443,356
Net cash provided by operating activities	**587,382**	274,100	690,446
CASH FLOWS FROM INVESTING ACTIVITIES			
Expended for property, plant and equipment	**(750,914)**	(538,033)	(593,785)
Proceeds from disposition of operations		377,618	
Proceeds from sale of assets	**50,511**	21,680	38,007
Net cash used in investing activities	**(700,403)**	(138,735)	(555,778)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowing	**278,500**	530,000	100,000
Reduction of long-term debt	**(114,869)**	(479,967)	(170,467)
Principal payments for obligations under capital leases	**(10,332)**	(12,741)	(9,850)
Proceeds from exercise of stock options, other	**22,049**	31,996	8,086
Repurchase of common stock	**(72,987)**		
Cash dividends	**(82,607)**	(68,544)	(56,905)
Net cash provided by (used in) financing activities	**19,754**	744	(129,136)
Net increase (decrease) in cash and cash equivalents	**(93,267)**	136,109	5,532
CASH AND CASH EQUIVALENTS			
Beginning of year	**195,689**	59,580	54,048
END OF YEAR	**$102,422**	$195,689	$ 59,580

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY[1]

(In thousands of dollars, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
BALANCES AT BEGINNING OF 1993	$144,542	$ 190,475	$1,241,847	$(32,850)	$1,544,014
Net earnings – 1993 (52 weeks)			247,090		247,090
Issuance of 524,258 shares of stock for stock options and awards		579		6,953	7,532
Dividends ($.40 per share)			(56,905)		(56,905)
Stock Purchase Incentive Plans including issuance of 120,000 shares		(3,389)		1,446	(1,943)
Purchase of 498 shares for treasury				(11)	(11)
Other		2,508			2,508
BALANCES AT YEAR-END 1993	$144,542	$190,173	$1,432,032	$(24,462)	$1,742,285
Net earnings – 1994 (52 weeks)			345,184		345,184
Issuance of 427,512 shares of stock for stock options and awards		2,629		5,259	7,888
Dividends ($.48 per share)			(68,544)		(68,544)
Stock Purchase Incentive Plans including issuance of 40,000 shares		21,245		496	21,741
Purchase of 152 shares for treasury				(4)	(4)
Other		2,371			2,371
BALANCES AT YEAR-END 1994	$144,542	$ 216,418	$1,708,672	$(18,711)	$2,050,921
Net earnings – 1995 (53 weeks)			**316,809**		**316,809**
Issuance of 592,143 shares of stock for stock options and awards		**914**		**7,583**	**8,497**
Dividends ($.56 per share)			**(82,607)**		**(82,607)**
Stock Purchase Incentive Plans including issuance of 60,000 shares		**3,869**		**733**	**4,602**
Conversion of convertible notes	**5,347**	**119,215**			**124,562**
Purchase of 124 shares for treasury				**(3)**	**(3)**
Stock Repurchase Program 2,522,500 shares				**(72,987)**	**(72,987)**
Other		**4,702**			**4,702**
BALANCES AT YEAR-END 1995	**$149,889**	**$345,118**	**$1,942,874**	**$(83,385)**	**$2,354,496**

See notes to consolidated financial statements

[1] *Restated as necessary to reflect the March 1994 2-for-1 stock split.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATURE OF OPERATIONS

American Stores Company is one of the nation's leading food and drug retailers, operating 1,650 stores in 26 states nationwide. The Company operates in a single industry segment and its principal lines of business are food, drug and combination food/drug stores. Food stores account for more than two-thirds of the Company's sales and operating profit. Principal markets include California, Illinois, New Jersey, Pennsylvania, Indiana and Arizona, where products are sold primarily to end-user customers.

SIGNIFICANT ACCOUNTING POLICIES

FISCAL YEAR

The fiscal year of the Company ends on the Saturday nearest to January 31. All references herein to "1995", "1994" and "1993" represent the 53-week fiscal year ended February 3, 1996, and the 52-week fiscal years ended January 28, 1995, and January 29, 1994, respectively.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of American Stores Company and all subsidiaries. Accordingly, all references herein to "American Stores Company" include the consolidated results of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair value. The balance of cash was higher at year-end 1994 due to proceeds held from the sale of the Star Market food division and 45 Acme Markets stores.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of owned assets. Leasehold improvements and leased properties under capital leases are amortized over the estimated useful life of the property or over the term of the lease, whichever is shorter.

GOODWILL

Goodwill, principally from the acquisition of Lucky Stores, Inc. in 1988, represents the excess of cost over fair value of net assets acquired and is being amortized over 40 years using the straight-line method.

COSTS OF OPENING AND CLOSING STORES

The costs of opening new stores are charged against earnings as incurred. When operations are discontinued and a store is closed, the remaining investment, net of salvage value, is charged against earnings and, for leased stores, a provision is made for the remaining lease liability, net of expected sublease income.

INCOME TAXES

The Company provides for deferred income taxes or credits as temporary differences arise in recording income and expenses between financial reporting and tax reporting. Amortization of goodwill is not deductible for purposes of calculating income tax provisions.

NET EARNINGS PER SHARE

Net earnings per share are determined by dividing the weighted average number of shares outstanding during the year into net earnings. Common share equivalents in the form of stock options are excluded from the calculation of net earnings per share since they do not have a material dilutive effect on per share figures. Fully diluted earnings per share in 1994 and 1993 include the assumed conversion of subordinated convertible debt.

NEW ACCOUNTING STANDARDS

Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of (FAS 121) was issued during 1995 and is effective for 1996. This standard requires losses to be recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows are less than the related asset's carrying value. The Company adopted this standard in the fourth quarter of 1995 and its adoption did not have a material effect on its financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Accounting for Stock-Based Compensation (FAS 123) was issued in 1995 and is effective for 1996. This standard encourages companies to recognize expense for all stock-based compensation arrangements at the date of grant using a fair value based method. However, the standard will allow companies to continue to use historical methods with footnote disclosure for the pro forma effect of using the new fair value method. The Company's present intent is to continue to use its historical method.

ENVIRONMENTAL REMEDIATION COSTS

Costs incurred to investigate and remediate contaminated sites, caused primarily by defective underground petroleum storage tanks and ground water contamination, are accrued when identified and estimable. The related costs are expensed unless the remediation extends the economic useful life of the assets employed at the site.

SELF-INSURANCE

The Company is self-insured for property loss, workers' compensation, general liability and automotive liability, subject to specific retention levels. The Company is also self-insured for health care claims for eligible active and retired associates. Consulting actuaries assist the Company in determining its liability for self-insured claims. The Company is required in certain cases to obtain letters of credit to support its self-insured status. At year-end 1995, the Company's self-insured liabilities were supported by approximately $254.8 million of undrawn letters of credit. Self-insured liabilities, with the exception of postretirement health care benefits, are not discounted.

INVENTORIES

Approximately 94% of inventories are accounted for using the LIFO (last-in, first-out) method for inventory valuation. If the FIFO and average cost methods had been used, inventories would have been $313.1 million, $300.3 million and $303.3 million higher at year-end 1995, 1994 and 1993, respectively. The LIFO charge to earnings was $12.8 million in 1995, $8.2 million in 1994 and $7.2 million in 1993. Under this method, the cost of merchandise sold that is reported in the financial statements approximates current costs and thus reduces the distortion in reported earnings due to increasing cost.

ADVERTISING EXPENSE

The Company expenses advertising costs when the advertisement occurs. Total advertising expense amounted to $168.3 million, $167.2 million and $169.5 million in 1995, 1994 and 1993, respectively. Capitalized advertising costs are immaterial for the periods presented.

DISPOSITION OF OPERATIONS

On September 8, 1994, the Company sold its 33-store Star Market food division with a basis of $167.0 million for $288.0 million and the assumption of substantially all of its outstanding liabilities. On January 19, 1995, the Company sold 45 of its Acme Markets stores with a basis of $48.4 million for $89.6 million. The assets sold consisted primarily of property, plant, equipment and inventories.

DEBT

On March 9, 1995, the Company completed the redemption of its $175 million, 7-1/4% Convertible Subordinated Notes due 2001. The Company issued 5.3 million shares of common stock upon the conversion of $120.3 million principal amount of Notes and the balance of approximately $54.7 million principal amount of Notes was redeemed for cash.

On May 18, 1995, the Company issued $200 million, 7.4% debentures due May 15, 2005, at 99.5% to yield 7.5%. The net proceeds of the offering were used to refinance a portion of the Company's long-term indebtedness that was repaid or redeemed over the twelve months preceding the issuance of such debentures. The refinancing of this long-term debt had been temporarily funded through short-term, variable-rate borrowings under the Company's principal bank credit agreement. The debentures were issued under the Company's $800 million shelf registration statement that was filed on February 18, 1994.

On August 7, 1995, the Company entered into a $75 million, 6.6% note payable due August 7, 2000. The proceeds from the note were used to pay off an existing $75 million, 8.9% note due August 7, 1995. On November 29, 1995, the Company paid off a $50 million, 10.9% note payable.

The Company's principal bank credit agreement is a $1.0 billion revolving credit facility, which expires in 1999. Interest rates for borrowings under the facility are established at the time of borrowing through four different pricing options. Terms of the revolving credit facility provide for borrowings from participating banks or borrowings through issuance of commercial paper that is supported by the facility. The Company also has $150 million of 364-day committed bank lines and $360 million of uncommitted bank lines, which are used for overnight and short-term bank borrowings. At year-end 1995, the Company had $865 million of debt supported by the credit facility and $69 million outstanding under bank lines, leaving unused committed borrowing capacity of $216 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company capitalized interest costs associated with construction projects of $8.5 million, $3.9 million and $3.4 million in 1995, 1994 and 1993, respectively. The Company made cash payments for interest (net of amounts capitalized) of $169.5 million, $172.0 million and $175.2 million in 1995, 1994 and 1993, respectively.

The aggregate amounts of debt maturing in each of the next five fiscal years are listed below:

(In thousands of dollars)

1996	**$ 125,413**
1997	**56,222**
1998	**72,847**
1999	**1,098,362**
2000	**148,983**
Thereafter	**662,222**
TOTAL DEBT	**$2,164,049**

The Company's various loans secured by real estate are collateralized by properties with a net book value of $113.5 million at year-end 1995.

A summary of debt is as follows:

(In thousands of dollars)	1995	1994	1993
PUBLIC DEBT (UNSECURED)			
7.4% Notes due 2005	**$ 200,000**		
Medium Term Notes – fixed interest rates due 1997 through 2003 – average interest rate 7.9%	**250,000**	$ 250,000	$ 250,000
9-1/8% Notes due 2002	**249,075**	248,966	248,868
7-1/4% Convertible Subordinated Notes due 2001		174,997	174,997
9-3/4% Eurobond Notes due 1994			100,000
BANK BORROWINGS (UNSECURED)			
Revolving credit facility – variable interest rates, effectively due 1999 – average interest rates 6.2% in 1995, 4.8% in 1994 and 3.6% in 1993	**865,000**	645,000	450,000
Lines of credit and commercial paper – variable interest rates, effectively due 1999 – average interest rates 6.4% in 1995, 4.7% in 1994 and 3.4% in 1993	**69,000**	210,000	128,000
Other borrowings – due 1995 through 2000 – average interest rates 6.5% in 1995, 8.8% in 1994 and 9.5% in 1993	**125,000**	175,000	140,000
9.7% due in 1996			138,803
OTHER UNSECURED DEBT			
9.8% due in 1999[1]	**210,000**	210,000	210,000
10.6% due in 2004	**108,893**	108,893	108,893
Other – due through 2001	**3,625**	4,211	8,353
DEBT SECURED BY REAL ESTATE			
Fixed interest rates – due through 2014 – average interest rate 13.3% in 1995, 13.4% in 1994 and 13.7% in 1993	**83,456**	93,662	112,782
Outstanding debt	**2,164,049**	2,120,729	2,070,696
Less current maturities	**125,413**	132,019	66,830
LONG-TERM DEBT	**$2,038,636**	$1,988,710	$2,003,866

[1] *See following paragraph concerning yen loans*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company uses derivative financial instruments to manage interest and currency risks on two foreign borrowings totaling 29.1 billion yen at an average yen interest rate of 6% and accounts for them as a hedge. At the time the loans originated, the Company entered into interest rate and currency exchange swap agreements (swaps) that match the interest and principal payments of the yen loans. Under these swap agreements, the Company makes fixed rate interest payments of 9.8% and principal payments totaling $210 million and receives payments equal to the underlying yen loan obligations. The proceeds, in yen, from these swaps are used to satisfy the yen-based interest and principal payments. As of year-end 1995, the estimated fair value of the swap agreements based on market quotes was approximately $68.2 million and equaled the loss on the yen loans due to currency and interest rate movements, resulting in an aggregate fair value of zero. The Company is exposed to credit losses in the event of nonperformance by the counterparties to its swap agreements. Such counterparties are highly rated financial institutions and the Company anticipates they will be able to satisfy their obligations under the contracts.

The carrying amounts of the Company's bank borrowings with variable interest rates approximate fair value. The fair value of the Company's borrowings with fixed interest rates is estimated using discounted cash flow analyses, based on current market rates where available, or on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of outstanding debt as of year-end 1995 was $2.3 billion compared to the carrying value of $2.2 billion.

LEASES

The Company leases retail stores, offices, warehouses and distribution facilities. Initial lease terms generally range from 20 to 25 years, plus renewal options, and may provide for contingent rent based on sales volume in excess of specified levels.

The summary below shows the aggregate future minimum rent commitments at year-end 1995 for both capital and operating leases. Operating leases are shown net of an aggregate $82.7 million of minimum rent income receivable under non-cancellable subleases. Operating leases also exclude the amortization of acquisition-related fair value adjustments.

(In thousands of dollars)	OPERATING LEASES	CAPITAL LEASES
1996	**$ 158,008**	**$ 17,270**
1997	**150,676**	**15,688**
1998	**142,438**	**14,200**
1999	**132,694**	**12,557**
2000	**119,031**	**10,381**
Thereafter	**830,500**	**57,207**
TOTAL MINIMUM RENT COMMITMENTS	**$1,533,347**	**127,303**
Less executory costs (such as taxes, insurance and maintenance) included in capital leases		**1,467**
Net minimum lease payments		**125,836**
Less amount representing interest		**49,717**
OBLIGATIONS UNDER CAPITAL LEASES, INCLUDING $9.7 MILLION DUE WITHIN ONE YEAR		**$ 76,119**

Rent expense, excluding the amortization of acquisition-related fair value adjustments of $14.3 million in 1995, $14.5 million in 1994 and $14.9 million in 1993, was as follows:

(In thousands of dollars)	Minimum Rent	Sublease Rent	Net	Contingent Rent	Total Rent
1995	**$197,543**	**$14,782**	**$182,761**	**$26,003**	**$208,764**
1994	$ 184,116	$ 9,064	$ 175,052	$26,508	$ 201,560
1993	$ 173,910	$ 9,133	$ 164,777	$29,809	$ 194,586

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

INCOME TAXES

Federal and state income taxes charged to earnings before extraordinary item are summarized below:

(In thousands of dollars)	53 WEEKS 1995	52 weeks 1994	52 weeks 1993
CURRENT			
Federal	**$124,317**	$229,052	$221,838
State	**15,979**	34,906	30,939
DEFERRED			
Federal	**81,859**	(2,469)	(29,519)
State	**11,952**	(410)	(4,543)
FEDERAL AND STATE INCOME TAXES	**$234,107**	$261,079	$218,715

Cash payments of income taxes were $169.2 million, $354.6 million and $201.8 million in 1995, 1994 and 1993, respectively.

The Company's effective income tax rate differs from the statutory federal income tax rate as follows:

(Percent of earnings before income taxes)	53 WEEKS 1995	52 weeks 1994	52 weeks 1993
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
State income tax rate, net of federal income tax effect	**5.1**	5.7	5.5
Goodwill amortization	**3.8**	3.6	4.5
Tax credits	**(0.4)**	(0.6)	(0.3)
Other	**(1.0)**	(0.6)	0.8
EFFECTIVE INCOME TAX RATE	**42.5%**	43.1%	45.5%

Deferred tax benefits and liabilities as of year-end 1995 related to the following temporary differences:

(In thousands of dollars)	BENEFITS	LIABILITIES	TOTAL
Basis in fixed assets	**$ 36,105**	**$(269,333)**	**$(233,228)**
Self-insurance reserves	**215,386**		**215,386**
Purchase accounting valuation	**41,827**	**(334,787)**	**(292,960)**
Compensation and benefits	**34,021**	**(55,011)**	**(20,990)**
Other, net	**51,330**	**(64,999)**	**(13,669)**
DEFERRED TAX BENEFITS AND LIABILITIES	**$378,669**	**$(724,130)**	**$(345,461)**

No valuation allowances have been considered necessary in the calculation of deferred tax benefits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

STOCK OPTION PLANS

The Company's 1989 Stock Option and Stock Award Plan (1989 Plan) provides for the grant of options to purchase shares of common stock, the grant of stock appreciation rights and the issuance of restricted stock awards for an aggregate of up to 4.8 million shares of common stock, subject to certain antidilution adjustments. At year-end 1995, there were 3.1 million shares reserved for future grants under the 1989 Plan.

During 1995, 1.2 million options to purchase common stock were issued under the 1989 Plan and 0.4 million were issued under a plan that subsequently expired. At year-end 1995, there were 1.1 million shares under stock options outstanding under the 1989 Plan and 0.8 million shares under stock options outstanding under an expired plan.

Compensation relating to stock option and award plans decreased pre-tax earnings by $3.4 million in 1995, $2.9 million in 1994 and $3.1 million in 1993. The average exercise price of stock options exercised during 1995 was $7.28 per share. The average exercise price per share for outstanding options was $22.73, $11.24 and $11.20 at year end 1995, 1994 and 1993, respectively.

A summary of stock options is as follows:

(In thousands of shares)	1995	1994	1993
Outstanding at beginning of year	**1,360**	2,183	3,008
Granted	**1,548**		
Exercised	**(826)**	(610)	(715)
Forfeited	**(162)**	(213)	(110)
OUTSTANDING AT END OF YEAR	**1,920**	1,360	2,183
EXERCISABLE AT END OF YEAR	**237**	457	1,067
RESERVED FOR FUTURE GRANTS	**3,117**	4,503	4,298

EMPLOYEE STOCK PURCHASE PLAN

On June 21, 1995, the shareholders approved the American Stores Company Employee Stock Purchase Plan (ESPP). The ESPP allows eligible employees the right to purchase common stock on a quarterly basis at the lower of 85% of the market price at the beginning or end of each three-month offering period. As of February 3, 1996, there were 7.0 million shares of common stock reserved for the ESPP and there had been no issuances to date. The ESPP operates on a calendar basis beginning January 1, 1996; a liability has been recorded for ESPP withholdings not yet applied towards the purchase of common stock.

STOCK PURCHASE INCENTIVE PLANS

In 1992, the Company's shareholders approved both the American Stores Company Key Executive Stock Purchase Incentive Plan and the American Stores Company Board of Directors Stock Purchase Incentive Plan (Plans). The Plans are intended to promote the long-term growth and financial success of the Company, and to strengthen the link between management and shareholders. The Board of Directors Plan was terminated on March 21, 1995, however the termination does not affect the terms of any awards outstanding on the date of termination.

Since the Plans' inception, the Company has awarded to certain directors and key executive officers the right to purchase a specified number of shares of the Company's stock and extended to such directors and officers full recourse interest bearing purchase loans to acquire the stock. The stock purchased by the directors and officers with the purchase loans was issued from treasury shares. The purchase loans have an eight-year term and accrue interest at rates ranging from 5.3% to 7.8%. The acquisition price of the stock was the average of the high and low value on the day acquired, as reported on the New York Stock Exchange. Shares held by the executives and directors pursuant to the Plans were 2.1 million for 1995 and 1994 and 2.4 million for 1993, with corresponding loan balances of $42.6 million, $40.3 million and $45.8 million, respectively. The aggregate principal of these notes outstanding is recorded as a reduction of additional paid-in capital in the balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Participants purchasing stock under the Plans are eligible for a deferred cash incentive award, which is generally payable at the end of a five-year performance cycle. One-half of the deferred award will be based on the continuation of service with the Company (Service Component), and the other half will be based on the Company's relative stock price performance versus a selected group of companies in the retail food and drug industry (Performance Component). The maximum combined Performance Component and Service Component payable to participants will not exceed the original principal amount of the purchase loan plus accrued but unpaid interest. The estimated deferred cash incentive award is recorded as compensation expense on the income statement and amounts earned to date are recognized as a credit to the note balances in additional paid-in capital in the balance sheet.

PREFERRED SHARE PURCHASE RIGHTS

During March 1988, the Board of Directors of the Company declared a distribution of one Preferred Share Purchase Right (Right) for each outstanding share of the Company's common stock.

Each Right entitles shareholders to purchase one four-hundredth of a share of a new series of preferred stock at an exercise price of $62.50. The Rights will be exercisable only if a person or group acquires 20% or more of the Company's common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 20% or more of the Company's common stock. The Rights will not apply to a 20% or greater position held by Mr. L. S. Skaggs, the Company's former Chairman, or certain other related parties. The Company will be entitled to redeem the Rights at one-quarter cent per Right any time before a 20% or greater position has been acquired. Additionally, the Company may lower the 20% threshold to not less than the greater of (i) any percentage greater than the largest percentage of common stock known by the Company to be owned by any person (other than L. S. Skaggs) and (ii) 10%.

If the Company is acquired in a merger or other business combination transaction, each Right will "flip over" and entitle its holder to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value at that time of twice the Right's exercise price.

In addition, if a person or group acquired 20% or more of the outstanding Company common stock, each Right will "flip in" and entitle all other holders to purchase, at the Right's then current exercise price, a number of shares of the Company's common stock having a market value of twice the Right's exercise price. Further, at any time after a person or group acquires 20% or more of the outstanding Company common stock but prior to the acquisition of 50% of such stock, the Board of Directors may, at its option, exchange part or all of the Rights (other than rights held by the acquiring person or group) for shares of the Company's common stock at an exchange rate of one share of common stock for each Right.

On February 22, 1995, the Board of Directors expressed its intent, subject to the exercise of its fiduciary duties, to allow the Rights Agreement pertaining to the Company's preferred share purchase rights, dated March 18, 1988, as amended, to expire in accordance with its terms on March 18, 1998, without renewal or extension.

REPURCHASE OF COMMON STOCK

The Company repurchased 2.5 million shares of its common stock during 1995 at an average price of $28.93 per share in accordance with its existing stock repurchase program. As of February 3, 1996, there remained an additional 1.5 million shares authorized for repurchase under the program.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

POSTRETIREMENT HEALTH CARE BENEFITS

The Company provides certain health care benefits to eligible retirees of certain defined employee groups under two unfunded plans, a defined dollar and a full coverage plan.

The accumulated postretirement health care benefit obligation is as follows:

(In thousands of dollars)	1995	1994	1993
Current retirees	**$37,396**	$35,787	$45,389
Current active employees	**14,275**	13,521	20,893
Unrecognized gain	**14,390**	16,819	1,612
ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION ("APBO")	**$66,061**	$66,127	$67,894
DISCOUNT RATE	**8.5%**	8.5%	7.4%

The components of postretirement health care benefit expense are as follows:

(In thousands of dollars)	1995	1994	1993
Service cost	**$ 768**	$1,013	$1,027
Interest cost	**4,006**	3,730	4,827
Adjustment of APBO	**(465)**	(598)	
NET POSTRETIREMENT HEALTH CARE BENEFIT EXPENSE	**$4,309**	$4,145	$5,854

The Company assumed no increase in the cost of the defined dollar benefit plan in any year presented. Changes in assumptions do not impact the defined dollar plan. The assumed health care cost trend rates used to measure the expected cost of benefits included a rate of increase of 10% for 1996 decreasing to 6% by the year 2000. Increasing the assumed health care cost trend rates for the full coverage plan by one percentage point in each year would have resulted in an increase of $2.1 million in the APBO and no material increase in annual health care expense.

RETIREMENT PLANS

The Company sponsors and contributes to a defined contribution retirement plan, American Stores Retirement Estates (ASRE). This plan was authorized by the Board of Directors for the purpose of providing retirement benefits for associates of American Stores Company and its subsidiaries. The plan covers employees meeting age and service eligibility requirements, except those represented by a labor union, unless the collective bargaining agreement provides for participation. Contributions to ASRE are made at the discretion of the Board of Directors.

The Company also contributes to multi-employer defined benefit retirement plans in accordance with the provisions of the various labor contracts that govern the plans. The multi-employer plan contributions are generally based on the number of hours worked. Information about these plans as to vested and non-vested accumulated benefits and net assets available for benefits is not available.

(In thousands of dollars)	53 WEEKS 1995	52 weeks 1994	52 weeks 1993
Company sponsored plans	**$ 81,704**	$ 84,149	$ 79,626
Multi-employer plans	**86,723**	67,391	62,859
RETIREMENT PLANS EXPENSE	**$168,427**	$151,540	$142,485

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONCLUDED)

During 1994, the Company entered into Employment Agreements (Agreements) with 17 of the Company's key executive officers. During 1995, the Company entered into an Agreement with an additional employee. The Agreements are for terms of either three or five years, may be renewed by the Company for subsequent three-year or five-year terms, contain usual and customary terms of employment agreements and provide the officers with a special long-range retirement plan. Under the retirement plan, the executives are entitled to receive an annual payment for a period of 20 years beginning at age 57 or upon termination of employment, whichever occurs later. The retirement benefit is calculated as a percentage of the executive's average target compensation objective during the last two years of his or her employment under the Agreement. The benefit ranges from 9% to 40% based on years of service with the Company. The retirement benefit will be forfeited if the executive enters into competition with the Company. At year-end 1995, 17 of the Agreements remained in effect.

CONTINGENCIES

The Company, from time to time, has disposed of leased properties and may retain certain contingent lease liabilities, either by contract or law. Although the Company is unaware of any material assertions against it from such dispositions, such claims may arise in the future. If such claims were asserted, the expense to the Company would consist of unpaid lease obligations, such as rents, which may be offset by subletting the property, negotiating favorable lease terminations, operating the facilities or applying existing reserves.

The Company has identified environmental contamination sites related primarily to underground petroleum storage tanks at various store, warehouse, office and manufacturing facilities (related to current operations as well as previously disposed of businesses). At most such locations, remediation is either underway or completed. Reserves have been established for each environmental contamination site unless an unfavorable outcome is remote. Although the ultimate outcome and expense of environmental remediation is uncertain, the Company believes that required remediation and continuing compliance with environmental laws in excess of current reserves will not have a material adverse effect on the financial condition or results of operations of the Company. Charges against earnings for environmental remediation were not material in 1995, 1994 or 1993.

LEGAL PROCEEDINGS

The Company is involved in various claims, administrative proceedings and other legal proceedings which arise from time to time in connection with the conduct of the Company's business. In the opinion of management, such proceedings will not have a material adverse effect on the Company's financial condition or results of operations.

ORGANIZATIONAL CHANGES

The Company recorded a charge to operating expenses of $23.9 million in 1994 for centralization of information technology, accounting, real estate and construction functions. As of third quarter 1995, the entire reserve had been utilized without significant adjustments to the original amount.

QUARTERLY RESULTS (UNAUDITED)

In the opinion of management, all adjustments necessary for a fair presentation have been included:

(In thousands of dollars, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter [3]	Fiscal Year
1995[1,2]					
Sales	**$4,362,237**	**$4,494,890**	**$4,361,183**	**$5,090,584**	**$18,308,894**
Gross profit	**1,160,445**	**1,193,991**	**1,181,934**	**1,382,171**	**4,918,541**
Operating profit	**134,576**	**165,277**	**154,632**	**252,338**	**706,823**
Other	**(3,703)**	**1,042**	**(718)**	**(1,730)**	**(5,109)**
Net earnings	**53,883**	**73,937**	**67,445**	**121,544**	**316,809**
Net earnings per share	**$.37**	**$.50**	**$.46**	**$.83**	**$2.16**
Fully diluted earnings per share	**.37**	**.50**	**.46**	**.83**	**2.16**
1994					
Sales	$ 4,607,652	$ 4,669,018	$ 4,431,863	$ 4,646,593	$ 18,355,126
Gross profit	1,219,801	1,232,503	1,183,166	1,282,957	4,918,427
Operating profit	131,756	169,830	120,982	227,500	650,068
Other	(1,623)	(1,900)	87,785	35,847	120,109
Net earnings	47,963	69,034	97,934	130,253	345,184
Net earnings per share	$.34	$.48	$.69	$.91	$2.42
Fully diluted earnings per share	.33	.47	.66	.87	2.33
1993					
Sales	$ 4,668,105	$ 4,693,057	$ 4,531,715	$ 4,870,562	$ 18,763,439
Gross profit	1,201,785	1,224,186	1,195,398	1,326,463	4,947,832
Operating profit	118,108	153,695	136,994	233,085	641,882
Other	31,665	(2,544)	699	(5,692)	24,128
Net earnings before extraordinary item	56,507	58,501	45,408	101,674	262,090
Extraordinary item – early retirement of debt – net of taxes	(15,000)				(15,000)
Net earnings	41,507	58,501	45,408	101,674	247,090
Earnings per share before extraordinary item	$.40	$.41	$.32	$.72	$1.85
Extraordinary item	(.11)				(.11)
Net earnings per share	$.29	$.41	$.32	$.72	$1.74
Fully diluted earnings per share	.29	.40	.31	.69	1.69

[1] *53-week year*

[2] *The fourth quarter of fiscal 1995 is a fourteen week quarter, compared to thirteen week quarters for fiscal 1994 and 1993.*

[3] *Operating profit in the fourth quarter has exceeded the prior three quarters in each of the three years presented due to the seasonality of the food and drug retail business and LIFO inventory adjustments. The holiday season in the fourth quarter benefits the food and drug retail business. Increased cold and flu occurrences during this quarter also benefit the drug store operations.*

BOARD OF DIRECTORS

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Managing Director
Southern Region Corporate Finance Unit
J. P. Morgan & Co.

Louis H. Callister [2,3,4,5]
Chairman of the Board, Law Firm of
Callister, Nebeker & McCullough, P.C.

Arden B. Engebretsen [2,3]
Chairman of the Board,
Herpak Limited; Attorney
Wilmington, Delaware

James B. Fisher [2,3,4]
Retired, Former President,
J.G. Boswell Company

Fernando R. Gumucio [2,4]
Retired, Former Chairman
and Chief Executive Officer
Del Monte USA

Leon G. Harmon [1,3,4]
Retired, Former President
and Chief Executive Officer,
First Interstate Bank of Utah, N.A.

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Retired, of Counsel to the
Law Firm of Jones, Waldo,
Holbrook & McDonough, P.C.

Victor L. Lund[1]
Chairman of the Board and
Chief Executive Officer

John E. Masline [2,4]
Retired, Former Partner, Ernst & Young

Michael T. Miller [1]
President and Executive Director
ALSAM Foundation

L. Tom Perry [1,3]
Member of the Council of the
Twelve Apostles,
The Church of Jesus Christ of
Latter-day Saints

Barbara S. Preiskel [3,4]
Attorney, New York, New York

J. L. Scott [2]
Retired, Former President and
Chief Executive Officer

Don L. Skaggs [1]
Executive Vice President and General
Manager – Skaggs Telecommunications
Service, Inc.

L. S. Skaggs [1]
Retired, Former Chairman of the Board

Arthur K. Smith [4,5]
President, University of Utah

[1] Executive Committee
[2] Audit Committee
[3] Compensation and Stock Option Committee
[4] Nominating Committee
[5] Alternate member of Executive Committee

OFFICERS

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Chairman of the Board and
Chief Executive Officer

David L. Maher
President and Chief Operating Officer

Kent T. Anderson
Chief Operating Officer –
Strategy and Development

Teresa Beck
Chief Financial Officer

James R. Clark
Chief Planning Officer

Robert P. Hermanns
Chief Operating Officer –
Procurement & Logistics

Kathleen E. McDermott
Chief Legal Officer and Assistant Secretary

Stephen L. Mannschreck
Chief Human Resources Officer

Francis J. Raucci
Chief Labor Officer

Martin A. Scholtens
Chief Operating Officer – Retail

Richard L. Davis
Executive Vice President and General
Manager – American Drug Stores

James C. Horn
Executive Vice President and
General Manager – Acme Markets

Don L. Skaggs
Executive Vice President and General
Manager – Skaggs Telecommunications
Service, Inc.

Romeo R. Cefalo
Senior Vice President and
General Manager – Lucky Stores Southern
California Division

Scott Bergeson
Senior Vice President, Human Resources

Jack Lunt
Senior Vice President, Assistant
General Counsel and Secretary

Edward J. McManus
Senior Vice President and General
Manager – Jewel Food Stores

Lawrence A. Metz
Senior Vice President and
Deputy General Counsel

J. Greg Spencer
Senior Vice President, Treasurer
and Assistant Secretary

Bradley M. Vierig
Senior Vice President and Controller

Stanley R. Whitcomb
Senior Vice President
Information Technology

Allen M. Zietz
Senior Vice President and
General Manager – Lucky Stores Northern
California Division

Judith A. Barker
Vice President, Public and
Investor Relations

D. B. Holt
Vice President and General Manager –
Jewel Osco Southwest

PRINCIPAL OPERATING COMPANIES

The Company conducts its activities principally through its retail food and drug store operations. The retail operations and other non-retail subsidiaries are listed below.

FOOD OPERATIONS

Acme Markets, Inc.
75 Valley Stream Parkway
Malvern, Pennsylvania 19355
(610) 889-4000

Jewel Food Stores, Inc.
1955 West North Avenue
Melrose Park, Illinois 60160
(708) 531-6000

Jewel Osco Southwest, Inc.
11825 Lomas N.E.
Albuquerque, New Mexico 87112
(505) 296-9166

Lucky Stores Northern California Division
1701 Marina Boulevard
San Leandro, California 94577
(510) 678-4200

Lucky Stores Southern California Division
6565 Knott Avenue
Buena Park, California 90620
(714) 739-2200

DRUG OPERATIONS

Osco Drug
1818 Swift Drive
Oak Brook, Illinois 60521
(708) 572-5000

Sav-on
1500 South Anaheim Boulevard
Anaheim, California 92805
(714) 778-2300

Health 'n' Home Corporation
136 East South Temple
Salt Lake City, Utah 84111
(801) 238-3200

JOINT VENTURE

(50% ownership)
RxAmerica, LLC
369 Billy Mitchell Way
Salt Lake City, Utah 84116
(801) 238-6000

NON-RETAIL SUBSIDIARIES

American Stores Properties, Inc.
348 East South Temple
Salt Lake City, Utah 84111
(801) 539-0140

National Procurement and Logistics Company
709 East South Temple
Salt Lake City, Utah 84102
(801) 539-0112

Skaggs Telecommunications Service, Inc.
935 West Bullion Street
Murray, Utah 84123
(801) 263-3959

CORPORATE INFORMATION

The following information is provided to assist shareholders in their communications with the Company.

Shareholder inquiries should be directed to:

American Stores Company		
709 East South Temple	Telephone:	(801) 539-0112
Salt Lake City, Utah 84102		(800) 541-2863
P. O. Box 27447	Telefax:	(801) 531-0768
Salt Lake City, Utah 84127-0447		

TRANSFER AGENT, REGISTRAR AND DIVIDEND PAYING AGENT

The transfer agent, registrar and dividend paying agent for American Stores Company common stock is First Chicago Trust Company of New York. In this capacity, First Chicago maintains all shareholder records for the corporation. For information about American Stores Company shareholder records or to request replacement of lost dividend checks or stock certificates, shareholders should contact:

First Chicago Trust Company of New York
P. O. Box 2500
Jersey City, New Jersey 07303-2500
(800) 446-2617

STOCK TRADING

American Stores Company's common stock is listed on the New York, Philadelphia, Chicago and Pacific Stock Exchanges, and is quoted in the daily stock tables carried by most newspapers. The ticker symbol for the common stock is "ASC." The stock table abbreviation is "AmStor."

FORM 10-K AND QUARTERLY FINANCIAL REPORTS

Copies of the Company's annual report on Form 10-K may be obtained without charge upon request to the Investor Relations Department.

In lieu of printing and distributing Quarterly Reports to Shareholders, American Stores Company makes available to its shareholders without charge, copies of the Company's quarterly reports on Form 10-Q. Shareholders wishing to receive the Company's Form 10-Q reports may contact the Investor Relations Department.

FACT BOOK

A comprehensive Fact Book with detailed historical financial information is available upon request without charge. It may be obtained by contacting the Investor Relations Department.

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on Wednesday, June 19, 1996, at 10:00 a.m. (Mountain Daylight Time) at the Little America Hotel, 500 South Main Street, Salt Lake City, Utah.

1996 CALENDAR

	Quarter End
First Quarter	May 4, 1996
Second Quarter	August 3, 1996
Third Quarter	November 2, 1996
Fourth Quarter	February 1, 1997

Printed on Recycled Paper
10% Post-consumer Waste

Design: Looking/Los Angeles; *Photography:* John Harding, Oe Ueda Studios, various; *Printing:* Anderson Lithograph

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Salt Lake City, UT 84102